

NAOS Emerging Opportunities Company (NCC)

NAOS

MONTHLY INVESTMENT REPORT AND NTA UPDATE

OCTOBER 2014

COMPANY OVERVIEW

Investment Objective

NCC seeks to provide investors with exposure to high quality emerging companies in a transparent and concentrated long/short structure, with the ability to outperform the Benchmark over the medium to long term. The Company will seek to pay a minimum dividend yield of 4.00% per annum franked to the maximum extent possible. The Company has the ability to short sell securities and hold significant levels of cash to assist in protecting investor's capital.

Investment Process

A unique 5 step investment process that places a strong emphasis on long term industry dynamics, management team capabilities and track record of producing significant shareholder value over the medium to long term. Finally, catalysts are identified for each potential investment so that these investments will be re-rated by the market and trade on valuations closer to their larger counterparts.

Investment Strategy

To actively manage a concentrated portfolio (approximately 0-20 positions) of high quality emerging companies across a wide range of industries, which investors may have a limited exposure to through investing in companies just in the ASX-100 Index. Many of these emerging companies are often overlooked and therefore potentially inefficiently priced by the wider investment community.

Inception Date: 26th of February 2013

Benchmark: Small Ordinaries Accumulation Index (XSOAI)

Shares on Issue (ASX: NCC): 35,721,027

Listed Options on Issue Exercisable at \$1.00 Prior 1st February 2015 (ASX: NCCO): 12,082,338

Listed Options on Issue Exercisable at \$1.13 Prior 1st August 2015 (ASX: NCCOA): 11,789,026

Fully Franked Dividend Yield: 5.53% Fully Franked (7.93% Gross)

Net Tangible Asset Value Breakdown as at 31ST October 2014 (NTA Diluted for Remaining NCCO Options)

| | |
|--------------------------------------|-----------------|
| Pre Tax NTA: | \$1.22 (\$1.16) |
| Post Tax & Pre Unrealised Gains Tax: | \$1.22 (\$1.16) |
| After Tax NTA: | \$1.17 (\$1.13) |

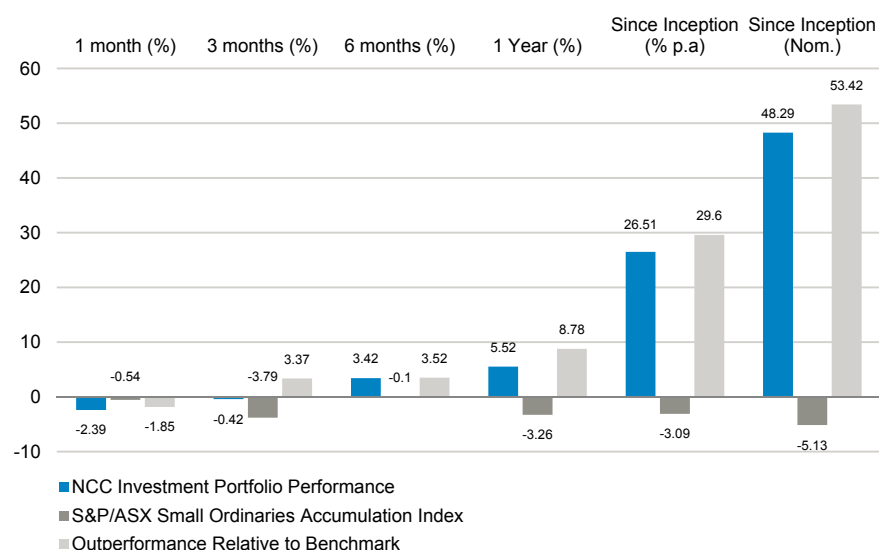
*The above NTA calculations do not account for any potential dilution from the 11,789,026 NCCOA options that remain on issue and are exercisable at \$1.13.

Investment Portfolio Performance to 30th September 2014*

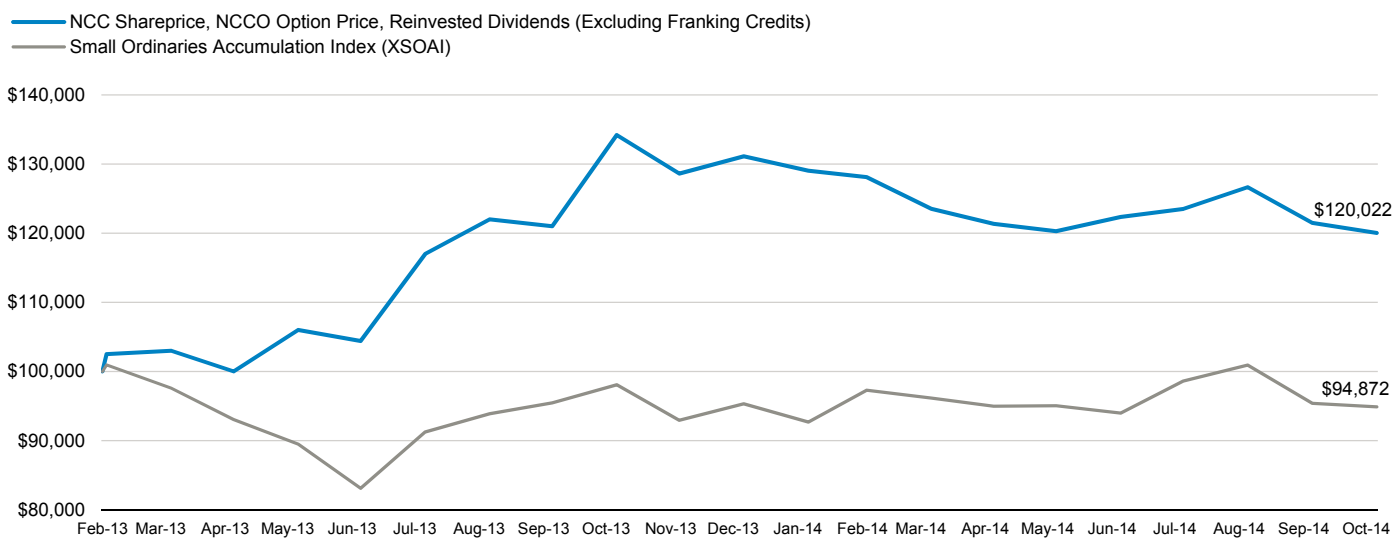
The NCC investment portfolio produced a negative return of -2.39% for the month of October compared to the benchmark Small Ordinaries Accumulation Index which fell by -0.54%. The short positions within the portfolio continued to provide excellent positive returns with a combined monthly return of close to +1.21% for the month of October. This was offset by the long positions which combined fell by just over 3% over the same period. Within the month there was one new long position added and one existing long position was exited. The cash and cash equivalent positions of the fund is 15.89% or 33.40% inclusive of CIX.

| | 1 month | 3 months | 6 months | 1 Year | Inception (p.a.) | Inception (Nom.) |
|---|---------|----------|----------|--------|------------------|------------------|
| NCC Investment Portfolio Performance* | -2.39% | -0.42% | +3.42% | +5.52% | +26.51% | +48.29% |
| S&P/ASX Small Ordinaries Accumulation Index (XSOAI) | -0.54% | -3.79% | -0.10% | -3.26% | -3.09% | -5.13% |
| Outperformance over Benchmark | -1.85% | +3.37% | +3.52% | +8.78% | +29.60% | +53.42% |

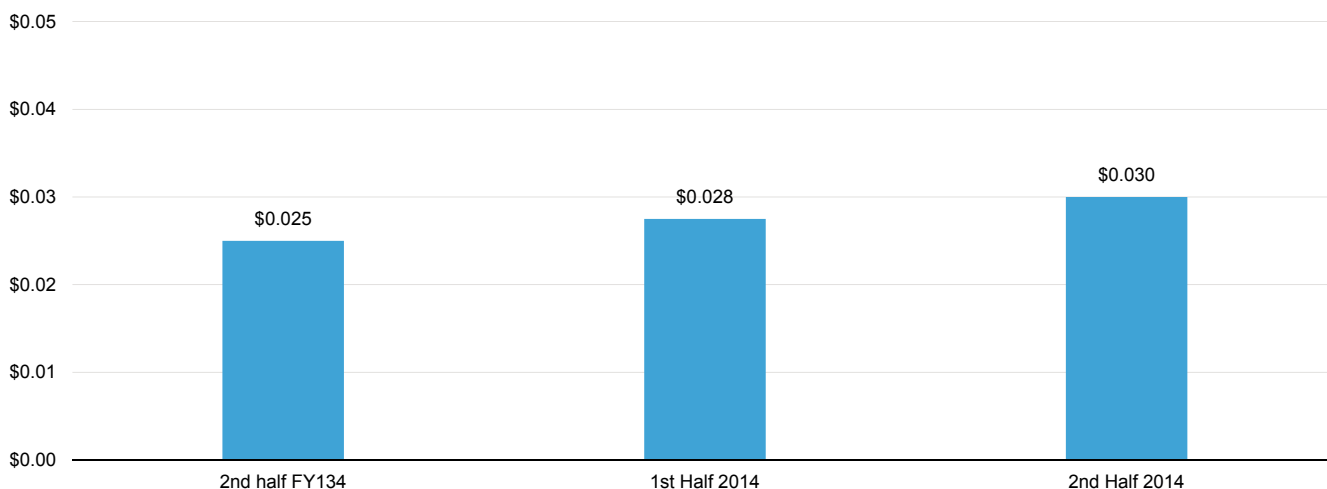
*Investment Portfolio Performance is post all operating expenses, before fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders.



Shareholder Return Analysis (IPO Investors)



Historical Fully Franked Dividends



Positive Stock Attribution Analysis (1st March 2013 to 31st October 2014)

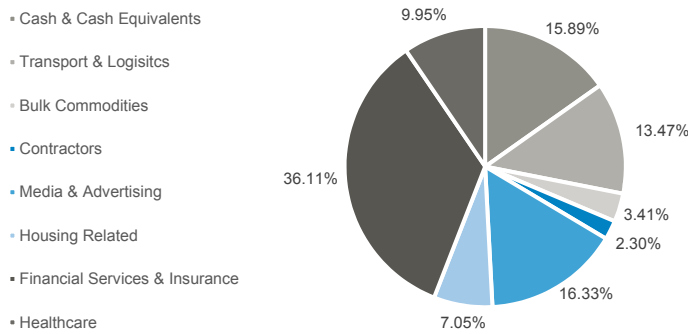
Below is a chart which lists the top positive contributors to NCC total return since 1st March 2013. The purpose of the chart is to illustrate that the performance the investment team derive over time is not simply from one or two positions but from a variety of positions, even with a highly concentrated portfolio of investments that is often 0 -15 securities at any one time. Any security that is currently held within the investment portfolio will not be disclosed until it is no longer part of the portfolio.

| Investment | Contribution to Return (%NAV) | Investment | Contribution to Return (%NAV) |
|----------------------|-------------------------------|----------------------|-------------------------------|
| Current Investment A | +13.17% | Gage Road Brewing | +4.39% |
| Capitol Health | +10.24% | Current Investment C | +4.16% |
| Current Investment B | +6.34% | Current Investment D | +2.86% |
| Village Roadshow | +5.53% | AMA Group | +2.74% |
| RHG Limited | +4.99% | Sirtex Medical | +2.15% |

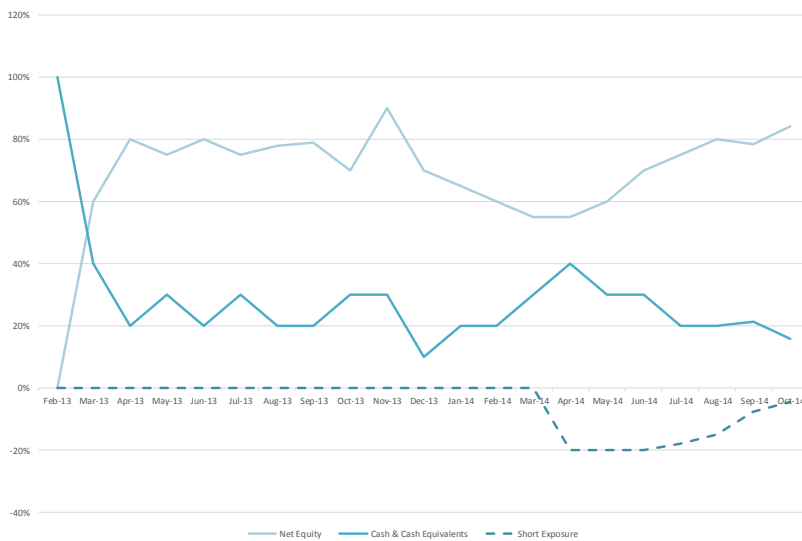
Portfolio Positioning as at 31st October 2014

The Investment Portfolio currently holds 10 active positions within the portfolio with one long position exited and replaced with a new long position. The long position operates in the commercial services sector and is now run by a proven management team whom previously worked at a much larger organization in a similar field. The investment has significant scope for capital growth due to the current large revenue base and potential to increase margins from very depressed levels.

Industry Breakdown



Net Equity Exposure



Company Meetings

The NAOS investment philosophy is based around the belief that for an Emerging Company to succeed and generate strong returns for shareholders it must be led by a motivated, proven and experienced management team. That is why the Investment Management Team has direct contact with many listed and unlisted Emerging Companies across a wide range of industries. During the month of July the Investment Management Team had direct contact with over 41 unlisted and listed companies of which several are listed below:

- Spruson & Ferguson (IPH)
- APN Outdoor (Unlisted)
- Medibank (MPL)
- Simonds Group (SIO)
- BSA Limited (BSA)
- Gage Road Brewing (GRB)
- Wide Bay Australia (WBB)
- Greens Food (Unlisted)
- Eureka Group (EGH)
- Oncosil Medical (OSL)
- Nagacorp (Unlisted)
- Commodities Group (COZ)

Market Insight

There was significant divergence between the performance of the ASX-100 companies, which rose by +4.7%, and their smaller counterparts in the EX-100, which fell by -0.5%, through the month of October. The market, excluding resources, outperformed significantly with a positive return of +5.8% however resources fell by -2.0%. The significant underperformance from the resources sector was driven in part by the energy space which fell by -3.6% after the Brent oil price fell by -9.5% in the month of October, to its lowest level in almost 4 years.

With the start of Annual General Meeting (AGM) season behind us the commentary from the majority of companies, both large and small, still focuses on little to no revenue growth and a focus on margin management. Although house prices in capital cities continue to rise there is still little evidence to show that this is translating into increased consumer spending levels. Feedback in regards to volumes for white goods and large household items for example remains weak along the eastern seaboard. Together with significant falls in key commodity prices and an Australian Dollar that still remains elevated compared to historical metrics, this could result in a subdued outlook for domestic economic activity levels and the potential for further rate cuts in mid-early CY2015.

Within the Small Ordinaries Index (XSO) there were some notable movements, both negative and positive. The three largest falls within the XSO were all materials or mining services related with Beadell Resources (BDR) falling by -37%, BC Iron (BCI) -33% and Ausdrill down by over -32%. Notable positive movers in the month of October were Corporate Travel (CTD) +24%, NEXT DC (NXT) +23% and Australian Pharmaceuticals (API) +19%. Finally, below is a chart of the Benchmark Small Ordinaries Accumulation Index (XSOAI). Since September, when the index reached a 1-Year record high, the XSOAI has fallen sharply to give back all the gains made through the previous 12 months.

XSOAI 1-Year Price Chart



*Source: Bloomberg

CORPORATE DIRECTORY

Directors

David Rickards (Independent Chairman)
Warwick Evans (Director)
Sebastian Evans (Director)

Company Secretary

Lawrence Adams
Investment Team
Sebastian Evans (Portfolio Manager)
Tom Granger (Assistant Portfolio Manager)
Jeffrey Kim (Investment Analyst)
Robert Miller (Investment Analyst)

Business Development

Anneke Senden

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ENQUIRIES

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